Solution 27.1

a)

		Debit	Credit
1 January 20X6			
Bank	*Given*	150 000	
Deferred grant income			150 000
Recognition of government grant			
31 December 20X6			
Staff costs	*Given*	200 000	
Bank			200 000
Wages paid during the year			
31 December 20X6			
Deferred grant income	*200 000 x 20%*	40 000	
Grant income			40 000
Recognising grant income to the extent payments made			
31 December 20X7			
Staff costs	*Given*	250 000	
Bank			250 000
Wages paid during the year			
31 December 20X7			
Deferred grant income	*250 000 x 20%*	50 000	
Grant income			50 000
Recognising grant income to the extent payments made			
31 December 20X8			
Staff costs	*Given*	400 000	
Bank			400 000
Wages paid during the year			
31 December 20X8			
Deferred grant income	*(400 000 x 20%) but limited to the balance in the deferred income account: 150 000 – 40 000 – 50 000*	60 000	
Grant income			60 000
Recognising grant income to the extent payments made			

P.S. Staff costs are an employee benefit. The account could therefore also be called employee benefit expense: wages, if preferred.

Solution 27.1 continued …

b)

		Debit	Credit
1 January 20X6			
Bank	*Given*	150 000	
Deferred grant income			150 000
Recognition of government grant			
31 December 20X6			
Staff costs	*Given*	200 000	
Bank			200 000
Wages paid during the year			
31 December 20X6			
Deferred grant income	*200 000 x 20%*	40 000	
Staff costs			40 000
Recognising grant income to the extent payments made			
31 December 20X7			
Staff costs	*Given*	250 000	
Bank			250 000
Wages paid during the year			
31 December 20X7			
Deferred grant income	*250 000 x 20%*	50 000	
Staff costs			50 000
Recognising grant income to the extent payments made			
31 December 20X8			
Staff costs	*Given*	400 000	
Bank			400 000
Wages paid during the year			
31 December 20X8			
Deferred grant income	*(400 000 x 20%) but limited to the balance in the deferred income account: 150 000 – 40 000 – 50 000*	60 000	
Staff costs			60 000
Recognising grant income to the extent payments made			

P.S. Staff costs are an employee benefit. The account could therefore also be called employee benefit expense: wages, if preferred.

Solution 27.2

a)

		Debit	Credit
1 January 20X5			
Bank	*Given*	400 000	
Deferred grant income			400 000
Recognition of government grant			
Equipment: cost	*Given*	1 500 000	
Bank			1 500 000
Purchase of equipment			
31 December 20X5			
Depreciation	*(1 500 000 – 0) / 4*	375 000	
Equipment: accumulated depreciation			375 000
Depreciation charge for the year			
Deferred grant income	*(400 000 / 4)*	100 000	
Grant income			100 000
Grant income recognised on the same basis as depreciation on the equipment			
31 December 20X6			
Depreciation	*(1 500 000 – 0) / 4*	375 000	
Equipment: accumulated depreciation			375 000
Depreciation charge for the year			
Deferred grant income	*(400 000 / 4)*	100 000	
Grant income			100 000
Grant income recognised on the same basis as depreciation on the equipment			
31 December 20X7			
Depreciation	*(1 500 000 – 0) / 4*	375 000	
Equipment: accumulated depreciation			375 000
Depreciation charge for the year			
Deferred grant income	*(400 000 / 4)*	100 000	
Grant income			100 000
Grant income recognised on the same basis as depreciation on the equipment			
31 December 20X8			
Depreciation	*(1 500 000 – 0) / 4*	375 000	
Equipment: accumulated depreciation			375 000
Depreciation charge for the year			
Deferred grant income	*(400 000 / 4)*	100 000	
Grant income			100 000
Grant income recognised on the same basis as depreciation on the equipment			

Solution 27.2 continued …

b)

		Debit	Credit
1 January 20X5			
Bank	*Given*	400 000	
Deferred grant income			400 000
Recognition of government grant			
Equipment: cost	*Given*	1 500 000	
Bank			1 500 000
Purchase of equipment			
Deferred grant income		400 000	
Equipment: cost			400 000
Recognizing grant as reduction of equipment's cost			
31 December 20X5			
Depreciation	*(1 500 000 – 400 000 – 0) /4*	275 000	
Equipment: accumulated depreciation			275 000
Depreciation on equipment			
31 December 20X6			
Depreciation	*(1 500 000 – 400 000 – 0) /4*	275 000	
Equipment: accumulated depreciation			275 000
Depreciation on equipment			
31 December 20X7			
Depreciation	*(1 500 000 – 400 000 – 0) /4*	275 000	
Equipment: accumulated depreciation			275 000
Depreciation on equipment			
31 December 20X8			
Depreciation	*(1 500 000 – 400 000 – 0) /4*	275 000	
Equipment: accumulated depreciation			275 000
Depreciation on equipment			

Solution 27.3

a)

		Debit	Credit
1 January 20X5			
Bank	*Given*	500 000	
Deferred grant income			500 000
Recognition of government grant			
Deferred grant income	*Given*	200 000	
Grant income			200 000
Portion of the grant received for immediate financial support is recognised as income immediately			
Harvester: cost (asset)	*Given*	900 000	
Bank			900 000
Purchase of harvester			
31 December 20X5			
Depreciation	*(900 000 – 50 000) / 5*	170 000	
Harvester: accumulated depreciation			170 000
Depreciation for the year			
Deferred grant income	*(500 000 - 200 000) / 5*	60 000	
Grant income			60 000
Grant income recognised on the same basis as depreciation			
31 December 20X6			
Depreciation	*(900 000 – 50 000) / 5*	170 000	
Harvester: accumulated depreciation			170 000
Depreciation for the year			
Deferred grant income	*(500 000 - 200 000) / 5*	60 000	
Grant income			60 000
Grant income recognised on the same basis as depreciation			
31 December 20X7			
Depreciation	*(900 000 – 50 000) / 5*	170 000	
Harvester: accumulated depreciation			170 000
Depreciation for the year			
Deferred grant income	*(500 000 - 200 000) / 5*	60 000	
Grant income			60 000
Grant income recognised on the same basis as depreciation			
31 December 20X8			
Depreciation	*(900 000 – 50 000) / 5*	170 000	
Harvester: accumulated depreciation			170 000
Depreciation for the year			
Deferred grant income	*(500 000 - 200 000) / 5*	60 000	
Grant income			60 000
Grant income recognised on the same basis as depreciation			
31 December 20X9			
Depreciation	*(900 000 – 50 000) / 5*	170 000	
Harvester: accumulated depreciation			170 000
Depreciation for the year			
Deferred grant income	*(500 000 - 200 000) / 5*	60 000	
Grant income			60 000
Grant income recognised on the same basis as depreciation			

Solution 27.3 continued …

b)

		Debit	Credit
1 January 20X5			
Bank	*Given*	500 000	
Deferred grant income			500 000
Recognition of government grant			
Deferred grant income	*Given*	200 000	
Grant income			200 000
Portion of grant for immediate financial support is recognised as income immediately			
Harvester: cost (asset)	*Given*	900 000	
Bank			900 000
Purchase of harvester			
Deferred grant income	*(500 000 – 200 000)*	300 000	
Harvester: cost (asset)			300 000
Grant set off against cost of harvester			
31 December 20X5			
Depreciation	*(900 000 – 300 000 – 50 000) / 5*	110 000	
Harvester: accumulated depreciation			110 000
Depreciation for the year			
31 December 20X6			
Depreciation	*(900 000 – 300 000 – 50 000) / 5*	110 000	
Harvester: accumulated depreciation			110 000
Depreciation for the year			
31 December 20X7			
Depreciation	*(900 000 – 300 000 – 50 000) / 5*	110 000	
Harvester: accumulated depreciation			110 000
Depreciation for the year			
31 December 20X8			
Depreciation	*(900 000 – 300 000 – 50 000) / 5*	110 000	
Harvester: accumulated depreciation			110 000
Depreciation for the year			
31 December 20X9			
Depreciation	*(900 000 – 300 000 – 50 000) / 5*	110 000	
Harvester: accumulated depreciation			110 000
Depreciation for the year			

Solution 27.4

a)

		Debit	Credit
1 January 20X6			
Bank	*Given*	250 000	
Deferred grant income			250 000
Recognition of government grant			
Machinery: cost (asset)	*Given*	500 000	
Bank			500 000
Purchase of machinery			
31 December 20X6			
Depreciation	*(500 000 – 0) /4*	125 000	
Machinery: accumulated depreciation			125 000
Depreciation for the year			
Deferred grant income	*(250 000 / 4)*	62 500	
Grant income			62 500
Recognised on same basis as depreciation			
31 December 20X7			
Depreciation	*(500 000 – 0) /4*	125 000	
Machinery: accumulated depreciation			125 000
Depreciation for the year			
Deferred grant income	*(250 000 / 4)*	62 500	
Grant income			62 500
Recognised on same basis as depreciation			
1 December 20X8			
Deferred grant income	*(250 000 – 62 500 – 62 500)*	125 000	
Grant forfeited expense	*Balancing*	125 000	
Bank	*Given*		250 000
Grant forfeited, first reduce deferred grant income then expense rest			
31 December 20X8			
Depreciation	*(500 000 – 0) /4*	125 000	
Machinery: accumulated depreciation			125 000
Depreciation for the year			
31 December 20X9			
Depreciation	*(500 000 – 0) /4*	125 000	
Machinery: accumulated depreciation			125 000
Depreciation for the year			

Solution 27.4 continued …

b)

		Debit	Credit
1 January 20X6			
Bank	*Given*	250 000	
Deferred grant income			250 000
Recognition of government grant			
Machinery: cost (asset)	*Given*	500 000	
Bank			500 000
Purchase of machinery			
Deferred grant income	*Given*	250 000	
Machinery: cost (asset)			250 000
Recognising grant as a reduction of asset's cost			
31 December 20X6			
Depreciation	*(500 000 – 250 000 – 0) /4*	62 500	
Machinery: accumulated depreciation			62 500
Depreciation for the year			
31 December 20X7			
Depreciation	*(500 000 – 250 000 – 0) /4*	62 500	
Machinery: accumulated depreciation			62 500
Depreciation for the year			
1 December 20X8			
Machinery: cost		250 000	
Bank	*Given*		250 000
Depreciation		125 000	
Machinery: accumulated depreciation	*W1: (250 000 – 125 000)*		125 000
Repayment of government grant and change in estimated depreciation			
31 December 20X8			
Depreciation	*(500 000 – 0) /4*	125 000	
Machinery: accumulated depreciation			125 000
Depreciation for the year			
31 December 20X9			
Depreciation	*(500 000 – 0) /4*	125 000	
Machinery: accumulated depreciation			125 000
Depreciation for the year			

Solution 27.4 continued …

b) continued …

Working 1: change in estimate

	Date	*Calculations*	Was	Is	Difference
Cost	1/1/20X6	*500 000 – 250 000*	250 000	500 000	250 000
Depreciation	20X6 & 20X7	*(250 000 – 0) / 4 x 2* *(500 000 – 0) / 4 x 2*	(125 000)	(250 000)	(125 000)
Carrying amount	31/12/20X7		125 000	250 000	125 000
Depreciation	20X8	*(250 000 – 0) / 4 x 1* *(500 000 – 0) /4 x 1*	(62 500)	(125 000)	(62 500)
Depreciation	Future	*(250 000 – 0) / 4 x 1* *(500 000 – 0) /4 x 1*	(62 500)	(125 000)	(62 500)
Residual value	31/12/20X9	*Given*	0	0	0

It is interesting to note that the change in estimate is calculated on a *cumulative catch-up basis*, rather than a reallocation basis suggested by IAS 8. This cumulative approach is required in IAS 20.32.

Solution 27.5

a)

	Debit	Credit
30 June 20X8		
Weapons licence: cost (FV)	900 000	
Bank		50 000
Deferred grant income		850 000
Recognising the licence granted by the government at fair value		
31 December 20X8		
Amortisation - licence (900 000/ 5 x 6/ 12)	90 000	
Licence: accumulated amortisation		90 000
Amortisation of weapons licence for 6 months		
Deferred grant income (850 000/ 5 x 6/ 12)	85 000	
Grant income		85 000
Recognised on the same basis as amortisation		

b)

	Debit	Credit
30 June 20X8		
Weapons licence: cost	50 000	
Bank		50 000
Recognising the licence granted by the government at nominal amount		
31 December 20X8		
Amortisation - licence (50 000/ 5 x 6/ 12)	5 000	
Licence: accumulated amortisation		5 000
Amortisation of weapons licence for 6 months		

c)

ANTHONY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (EXTRACTS)
FOR THE YEAR ENDED 31 DECEMBER 20X8

25. Government assistance

Anthony Limited received free advice from government experts. This advice included technical manufacturing advice as well as marketing advice for the company's weapons manufacturing operations. The company received this assistance because of its excellent BEE rating.

Solution 27.6

The subsidy granted by the government would meet the definition of a government grant as defined by IAS 20.3.

Government grants are assistance by government:

- in the form of transfers of resources:
  The amount of C800 000 is a resource – and equates to a transfer of these resources even if the grant has not yet been received in cash: the government's obligation and Trailblazer Limited's asset would be recognized on the basis that the flow of future economic benefits were expected (if there was any risk that the company would not complete the building, being a condition of the grant, then this grant would not be recorded until either the cash were received or the condition was met);
- to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity:
  A condition was attached to the grant requiring that a building be erected in Themiddleofnowhere.
- They exclude those forms of government assistance which:
  - cannot reasonably have a value placed upon them:
    this grant clearly has a value since it will equal half of the costs of construction, limited to a grant of C1 000 000. If Trailblazer Limited has no reliable estimate of the costs of construction, then the definition of a grant would not be met: the grant would need to be recognized as and when it was received or as soon as a reliable estimate became possible
  - cannot be distinguished from the normal trading transactions of the entity:
    the grant is clearly related to the normal trading transactions of the entity since the grant relates to the building of a factory that is essential to the manufacture of its only product: shoes.

The subsidy also meets the definition of a grant related to an asset as defined by IAS 20.3:

- a grant whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.
  The grant was conditional upon the construction of a factory in a specific area, thus a condition to the grant exists.

The government grant therefore exists. Whether or not to *recognize* this grant, however, depends on whether there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received (IAS 20.8). Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

Trailblazer Limited should therefore use professional judgement and be prudent in recognizing this grant and only recognize the grant when the building is significantly complete, feasibility studies have been done to ensure sufficiently cash is available to complete the building etcetera. The terms of the agreement would need to be thoroughly assessed before recognizing this grant and determining how much of the grant may be recognized..

As the grant was provided for the construction of a factory that would be depreciated, Trailblazer would have the choice of recognising the grant of C800 000 as either:

- Deferred income and periodically amortising the grant on a rational and consistent basis, e.g. the useful life of the factory, to profit or loss; or
- A reduction against the cost of the factory. This would have the same effect on profit or loss as the depreciation expense will be reduced.

Solution 27.7

a)

	Debit	Credit
1 January 20X8		
Bank	300 000	
Deferred income: government grant		300 000
Government grant received		
PPE: glass blower: cost	500 000	
Bank		500 000
Purchase of glass blower		
31 December 20X8		
Depreciation – glass blower *(500 000 – 0) ÷5*	100 000	
PPE: glass blower: accumulated depreciation		100 000
Depreciation for 20X8		
Deferred income: government grant	60 000	
Grant income *300 000 ÷ 5*		60 000
Portion of grant income realised		
31 December 20X9		
Depreciation – glass blower *(500 000 – 0) ÷5*	100 000	
PPE: glass blower: cost accumulated depreciation		100 000
Depreciation for 20X9		
Deferred income: government grant	60 000	
Grant income		60 000
Grant income realised		
Deferred income: government grant	60 000	
Bank *300 000 x (2 000 ÷ 10 000)*		60 000
Portion of grant repaid		
Grant income *W1 or (60 000 + 60 000) x 20%*		
Deferred income: government grant	24 000	
Grant income restated due to repayment (change in estimate)		24 000

W1: Change in estimate

Deferred income	**Was**	**Should have been**	**Difference**	
1/1/20X8 (1)	300 000	240 000	60 000	
Movement (2) (3)	(60 000)	(48 000)	(12 000)	*Less grant income*
31/12/20X8	240 000	192 000	48 000	
Movement	(60 000)	(48 000)	(12 000)	*Less grant income*
31/12/20X9	180 000	144 000	36 000	

(1) Amount originally received: 300 000 – Amount forfeited (repaid): 60 000 = 240 000
(2) 300 000 / 5 years = 60 000
(3) 240 000 / 5 years = 48 000

Solution 27.7

b)

		Debit	Credit
1 January 20X8			
Bank		300 000	
Deferred income: government grant			300 000
Government grant received			
PPE: glass blower: cost		500 000	
Bank			500 000
Purchase of glass blower			
Deferred income: government grant		300 000	
PPE: glass blower: cost			300 000
Grant written off against asset			
31 December 20X8			
Depreciation	*(500 000 – 300 000 – 0) ÷ 5*	40 000	
PPE: glass blower: accumulated depreciation			40 000
Depreciation for 20X8			
31 December 20X9			
Depreciation	*(500 000 – 300 000 – 0) ÷ 5*	40 000	
PPE: glass blower: accumulated depreciation			40 000
Depreciation for 20X9			
PPE: glass blower: cost	*300 000 x (2 000 ÷ 10 000)*	60 000	
Bank			60 000
Portion of grant repaid			
Depreciation	*W1 or 60 000/ 5yrs x 2 yrs*	24 000	
PPE: glass blower: accumulated depreciation			24 000
Accumulated depreciation restated due to repayment of grant			

W1: Change in estimate

Glass blower	**Was**	**Should have been**	**Difference**
1/1/20X8 (1) (2)	200 000	260 000	60 000
Movement (3) (4)	(40 000)	(52 000)	12 000
31/12/20X8	160 000	208 000	(48 000)
Movement	(40 000)	(52 000)	12 000
31/12/20X9	120 000	156 000	(36 000)

(1) Cost: 500 000 – Original grant: 300 000 = 200 000
(2) Cost: 500 000 – Reduced grant: (300 000 – 60 000) = 260 000
(3) (200 000 – 0) / 5 years = 40 000
(4) (260 000 – 0) / 5 years = 52 000